

TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman
Lynn Greer, Director
Melvin Malone, Director



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REGULATORY AUTH.

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460 James Robertson Parkway
Nashville, Tennessee 37243-0505

OFFICE OF THE
EXECUTIVE SECRETARY

March 26, 2002

Mr. A.J. Passarella
Loretto Telephone Company
P.O. Box 130
Loretto, TN 38649

**Re: TRA Docket No. 02-00137 – Tariff to Provide Rate Reductions to
Offset a Portion of the 2002 Tax Credit**

Dear Mr. Passarella:

At the two most recent Authority Conferences held on March 12 and March 26, 2002, the Directors made certain rulings relative to your tariff to flow through to business customers the estimated net property tax savings created by 2001 Public Chapter No. 195 (the "Act"). Specifically, the Authority determined:

1. That Loretto Telephone accurately applied a reasonable methodology based on assessed property values to compute its estimated property tax savings;
2. That the Comptroller of the Treasury is in the process of establishing administrative procedures for operation of the Telecommunications Ad Valorem Tax Reduction Fund (the "Fund") created by the Act;
3. That the Authority's acceptance of Loretto Telephone's calculations of estimated tax savings based on assessed property values for the purpose of flowing through estimated net tax savings to business customers does not constitute an endorsement or recommendation of any particular methodology to apportion the Fund among eligible carriers;
4. That the rate adjustments proposed by Loretto Telephone are appropriately applied only to the services purchased by business customers in accordance with the Act;
5. That, in accordance with the Act, each rate-of-return regulated company that jurisdictionally separates its costs for rate purposes may deduct Part 36/69 costs that are attributable to the interstate jurisdiction from the amount of net tax savings flowed through to business customers as long as such costs are computed in a reasonable manner that is correctly applied. Because Loretto Telephone does not jurisdictionally separate its costs for rate purposes, your company should not deduct any Part 36/69 costs when calculating its estimated net tax savings;

6. That, as a rate-of-return regulated company, Loretto Telephone will be allowed to deduct reasonable and necessary costs of complying with the Act when calculating your estimated net tax savings provided that the company files sufficient cost justification;
7. That the rate adjustments proposed by Loretto Telephone do not properly reflect the net amount of estimated property tax savings because the company proposed to flow through the net tax savings to business customers over an 18-month period rather than a 12-month period, or annualized level of rate adjustments;
8. That Loretto Telephone has two options with respect to the flow through period for adjusting business rates pursuant to the Act:
 - a. Option 1: Loretto Telephone may flow through its estimated net tax savings to business customers over a 12-month period. If your company chooses this option, Loretto Telephone shall give business customers credit for the period of time that has expired between January 1, 2002 (the effective date required by the Act) and the institution of the rate adjustments to customers' bills; or
 - b. Option 2: Loretto Telephone may flow through its estimated net tax savings to business customers prospectively over the remaining months of 2002. If your company chooses this option, Loretto Telephone should be allowed to readjust rates effective January 1, 2003, to reflect the company's annualized level of rate adjustments for its estimated net tax savings for the following calendar year; and
9. That the price adjustments to pass through the estimated net tax savings to business customers shall be in the form of rate reductions to specific tariffed services rather than the billing credits proposed by Loretto Telephone. The annual price adjustments required by the Act may be accomplished through simple tariff filings rather than full rate hearings.

The Authority directs Loretto Telephone to revise its tariff proposal to be consistent with the above rulings. You should re-file your revised tariff along with all supporting documentation under the same docket number as referenced hereinabove by April 5, 2002. If you have any questions concerning this matter, contact Joe Shirley at 615-741-2904, extension 152.

Sincerely,

A handwritten signature in black ink, appearing to read "K. David Waddell", with a stylized, overlapping loop at the end.

K. David Waddell
Executive Secretary